

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**TRAILBLAZER HEALTH  
ENTERPRISES, LLC,  
DID NOT CLAIM SOME ALLOWABLE  
MEDICARE PENSION COSTS**

*Inquiries about this report may be addressed to the Office of Public Affairs at  
[Public.Affairs@oig.hhs.gov](mailto:Public.Affairs@oig.hhs.gov).*



Gloria L. Jarmon  
Deputy Inspector General  
for Audit Services

August 2017  
A-07-17-00508

# *Office of Inspector General*

<https://oig.hhs.gov/>

---

The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

## *Office of Audit Services*

The Office of Audit Services (OAS) provides auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations. These assessments help reduce waste, abuse, and mismanagement and promote economy and efficiency throughout HHS.

## *Office of Evaluation and Inspections*

The Office of Evaluation and Inspections (OEI) conducts national evaluations to provide HHS, Congress, and the public with timely, useful, and reliable information on significant issues. These evaluations focus on preventing fraud, waste, or abuse and promoting economy, efficiency, and effectiveness of departmental programs. To promote impact, OEI reports also present practical recommendations for improving program operations.

## *Office of Investigations*

The Office of Investigations (OI) conducts criminal, civil, and administrative investigations of fraud and misconduct related to HHS programs, operations, and beneficiaries. With investigators working in all 50 States and the District of Columbia, OI utilizes its resources by actively coordinating with the Department of Justice and other Federal, State, and local law enforcement authorities. The investigative efforts of OI often lead to criminal convictions, administrative sanctions, and/or civil monetary penalties.

## *Office of Counsel to the Inspector General*

The Office of Counsel to the Inspector General (OCIG) provides general legal services to OIG, rendering advice and opinions on HHS programs and operations and providing all legal support for OIG's internal operations. OCIG represents OIG in all civil and administrative fraud and abuse cases involving HHS programs, including False Claims Act, program exclusion, and civil monetary penalty cases. In connection with these cases, OCIG also negotiates and monitors corporate integrity agreements. OCIG renders advisory opinions, issues compliance program guidance, publishes fraud alerts, and provides other guidance to the health care industry concerning the anti-kickback statute and other OIG enforcement authorities.

# *Notices*

---

**THIS REPORT IS AVAILABLE TO THE PUBLIC**  
at <https://oig.hhs.gov>

Section 8M of the Inspector General Act, 5 U.S.C. App., requires that  
OIG post its publicly available reports on the OIG website.

## **OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS**

The designation of financial or management practices as questionable,  
a recommendation for the disallowance of costs incurred or claimed,  
and any other conclusions and recommendations in this report represent  
the findings and opinions of OAS. Authorized officials of the HHS  
operating divisions will make final determination on these matters.

## Report in Brief

Date: August 2017

Report No. A-07-17-00508

U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES  
**OFFICE OF INSPECTOR GENERAL**



### Why OIG Did This Review

The Centers for Medicare & Medicaid Services (CMS) reimburses a portion of the Medicare contractors' annual pension costs, which are funded by contributions that contractors make to their pension plans.

The HHS, OIG, Office of Audit Services, Region VII pension audit team reviews the cost elements related to qualified defined-benefit and any other pension-related cost elements claimed by Medicare contractors through Final Administrative Cost Proposals (FACPs).

Our objective was to determine whether the fiscal years (FYs) 2005 through 2011 pension costs that TrailBlazer Health Enterprises, LLC (TrailBlazer), claimed for Medicare reimbursement under its fiscal intermediary and carrier contracts, and reported on its FACPs, were allowable and correctly claimed.

### How OIG Did This Review

We reviewed \$16.2 million of pension costs claimed by TrailBlazer for Medicare reimbursement on its FACPs for FYs 2005 through 2011. The TrailBlazer Medicare segment closed effective April 30, 2013; therefore, the auditee requested that we address our recommendation to Palmetto Government Benefits Administrator (Palmetto).

## TrailBlazer Health Enterprises, LLC, Did Not Claim Some Allowable Medicare Pension Costs

### What OIG Found

TrailBlazer claimed FYs 2005 through 2011 pension costs of \$16.2 million for Medicare reimbursement; however, we determined that the allowable Cost Accounting Standards (CAS)-based pension costs during this period were \$20.5 million. The difference, \$4.3 million, represented allowable fiscal intermediary and carrier contract Medicare pension costs that TrailBlazer should have claimed on its FACPs for FYs 2005 through 2011. TrailBlazer did not claim these allowable Medicare pension costs because it did not claim CAS-based pension costs on its FACPs.

### What OIG Recommends and Auditee Comments

We recommend that Palmetto revise TrailBlazer's FACPs for FYs 2005 through 2011 to increase its claimed Medicare pension costs by \$4.3 million.

Palmetto concurred with our recommendation.

## TABLE OF CONTENTS

INTRODUCTION.....	1
Why We Did This Review .....	1
Objective .....	1
Background .....	1
TrailBlazer Health Enterprises, LLC .....	1
Medicare Reimbursement of Pension Costs .....	2
How We Conducted This Review .....	2
FINDING.....	3
Claimed Pension Costs .....	3
Allowable Pension Costs Not Claimed .....	3
RECOMMENDATION .....	4
AUDITEE COMMENTS .....	4
APPENDIXES	
A: Audit Scope and Methodology .....	5
B: Federal Requirements Related to Reimbursement of Pension Costs .....	7
C: Allowable Medicare Pension Costs for TrailBlazer Health Enterprises, LLC, for Fiscal Years 2005 Through 2011 .....	8
D: Auditee Comments .....	13

## **INTRODUCTION**

### **WHY WE DID THIS REVIEW**

Medicare contractors are eligible to be reimbursed a portion of their pension costs, which are funded by the annual contributions that these contractors make to their pension plans. The amount of pension costs that the Centers for Medicare & Medicaid Services (CMS) reimburses to the contractors is determined by the cost reimbursement principles contained in the Federal Acquisition Regulation (FAR), Cost Accounting Standards (CAS), and Medicare contracts. Previous Office of Inspector General reviews found that Medicare contractors did not always comply with Federal requirements when claiming pension costs for Medicare reimbursement.

At CMS's request, the Office of Inspector General, Office of Audit Services, Region VII pension audit team reviews the cost elements related to qualified defined-benefit, nonqualified defined-benefit, postretirement benefit, and any other pension-related cost elements claimed by Medicare fiscal intermediaries and carrier contractors and Medicare administrative contractors (MACs) through Final Administrative Cost Proposals (FACPs) and/or Incurred Cost Proposals.

For this review, we focused on one Medicare contractor, TrailBlazer Health Enterprises, LLC (TrailBlazer). In particular, we examined the Medicare segment costs that TrailBlazer claimed for Medicare reimbursement on its FACPs.

### **OBJECTIVE**

Our objective was to determine whether the fiscal years (FYs) 2005 through 2011 pension costs that TrailBlazer claimed for Medicare reimbursement under its fiscal intermediary and carrier contracts, and reported on its FACPs, were allowable and correctly claimed.

### **BACKGROUND**

#### **TrailBlazer Health Enterprises, LLC**

During our audit period, TrailBlazer, whose home office was located in Dallas, Texas, was a subsidiary of Blue Cross Blue Shield of South Carolina (BCBS South Carolina). TrailBlazer administered Medicare Part A fiscal intermediary and Medicare Part B carrier contract operations under cost reimbursement contracts with CMS. The Part A fiscal intermediary and Part B carrier contracts terminated on June 13, 2008, and March 21, 2011, respectively.

With the implementation of Medicare contracting reform,<sup>1</sup> TrailBlazer continued to perform Medicare work after being awarded the MAC contracts for Medicare Part A and Part B Jurisdiction 4,<sup>2</sup> effective August 2, 2007. TrailBlazer continued to work as the Jurisdiction 4 MAC until April 30, 2013, when the TrailBlazer Medicare segment closed.

During the audit period (FYs 2005 through 2011), BCBS South Carolina had three Medicare segments that participated in its qualified defined-benefit pension plan: (1) Palmetto Government Benefits Administrator, LLC (Palmetto); (2) TrailBlazer; and (3) Companion Data Services, LLC (CDS). This report addresses TrailBlazer's compliance with Federal regulations and the fiscal intermediary and carrier contracts when claiming Medicare pension costs for Medicare reimbursement. We are addressing the pension costs claimed by Palmetto and CDS in separate reviews. The TrailBlazer Medicare segment closed effective April 30, 2013; therefore, BCBS South Carolina requested that we address our recommendation to Palmetto. Although our report is addressed to Palmetto, we will associate the term TrailBlazer with our finding and recommendation.

### **Medicare Reimbursement of Pension Costs**

CMS reimburses a portion of the Medicare contractors' annual pension costs, which are funded by contributions that these contractors make to their pension plans. To be allowable for Medicare reimbursement, pension costs must be (1) measured, assigned, and allocated in accordance with CAS 412 and 413 and (2) funded as specified by part 31 of the FAR.

Beginning with FY 1988, CMS incorporated specific segmentation language into Medicare contracts that requires contractors to use either an allocation method or a separate calculation method to identify and claim pension costs for Medicare reimbursement. Under the allocation method, the contractor determines total plan CAS-based pension costs and allocates a share to Medicare. Under the separate calculation method, the contractor separately identifies the pension cost components for the Medicare segment. The contractor must use the separate calculation method if its result is materially different from that of the allocation method.

### **HOW WE CONDUCTED THIS REVIEW**

We reviewed \$16,204,481 of pension costs claimed by TrailBlazer for Medicare reimbursement on its FACPs for FYs 2005 through 2011.<sup>3</sup>

---

<sup>1</sup> Section 911 of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, P.L. No. 108-173, required CMS to transfer the functions of fiscal intermediaries and carriers to MACs between October 2005 and October 2011. Most, but not all, of the MACs are fully operational; for jurisdictions where the MACs are not fully operational, the fiscal intermediaries and carriers continue to process claims.

<sup>2</sup> Medicare Parts A and B Jurisdiction 4 consists of the States of Colorado, New Mexico, Oklahoma, and Texas.

<sup>3</sup> The FY 2011 pension cost is calculated for the period of October 2010 through March 2011 to reflect TrailBlazer's Medicare Part B carrier contract termination on March 21, 2011.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objectives.

Appendix A contains details of our audit scope and methodology.

## **FINDING**

TrailBlazer claimed FYs 2005 through 2011 pension costs of \$16,204,481 for Medicare reimbursement; however, we determined that the allowable CAS-based pension costs during this period were \$20,465,537. The difference, \$4,261,056, represented allowable fiscal intermediary and carrier contract Medicare pension costs that TrailBlazer did not claim on its FACPs for FYs 2005 through 2011. TrailBlazer did not claim these allowable Medicare pension costs because it did not claim CAS-based pension costs on its FACPs.

### **CLAIMED PENSION COSTS**

TrailBlazer claimed Medicare pension costs of \$16,204,481 for Medicare reimbursement, under the provisions of its Medicare contracts, on its FACPs for FYs 2005 through 2011. We calculated the allowable Medicare pension costs based on separately computed CAS-based pension costs for the Medicare segment and the Other segment in accordance with CAS 412 and 413. For details on the Federal requirements, see Appendix B.

### **ALLOWABLE PENSION COSTS NOT CLAIMED**

We determined that the allowable CAS-based pension costs for FYs 2005 through 2011 were \$20,465,537. Thus, TrailBlazer did not claim \$4,261,056 of allowable Medicare pension costs on its FACPs for FYs 2005 through 2011. This underclaim occurred primarily because TrailBlazer did not claim CAS-based pension costs on its FACPs.

The table on the following page shows the differences between the allowable CAS-based pension costs and the pension costs claimed on TrailBlazer's FACPs and reflected in its accounting documents. Appendix C contains additional details on allowable pension costs.

**Table: Comparison of Allowable Pension Costs and Claimed Pension Costs**

	<b>Medicare Pension Costs</b>		
<b>Fiscal Year</b>	<b>Allowable Per Audit</b>	<b>Claimed by TrailBlazer</b>	<b>Difference</b>
2005	\$5,619,929	\$3,765,453	\$1,854,476
2006	5,908,484	4,106,973	1,801,511
2007	5,029,436	4,335,245	694,191
2008	2,311,046	2,849,212	(538,166)
2009	894,847	441,213	453,634
2010	483,054	484,709	(1,655)
2011	218,741	221,676	(2,935)
<b>Total</b>	<b>\$20,465,537</b>	<b>\$16,204,481</b>	<b>\$4,261,056</b>

**RECOMMENDATION**

We recommend that Palmetto revise TrailBlazer’s FACPs for FYs 2005 through 2011 to increase its claimed Medicare pension costs by \$4,261,056.

**AUDITEE COMMENTS**

In written comments on our draft report, Palmetto concurred with our recommendation. Palmetto’s comments appear in their entirety as Appendix D.

## **APPENDIX A: AUDIT SCOPE AND METHODOLOGY**

### **SCOPE**

We reviewed \$16,204,481 of pension costs that TrailBlazer claimed for Medicare reimbursement on its FACPs for FYs 2005 through 2011.

Achieving our objective did not require that we review TrailBlazer's overall internal control structure. We reviewed the internal controls related to the pension costs claimed for Medicare reimbursement to ensure that the pension costs were allocable in accordance with the CAS and allowable in accordance with the FAR.

We performed our fieldwork at TrailBlazer in Dallas, Texas.

### **METHODOLOGY**

To accomplish our objective, we:

- reviewed the portions of the FAR, CAS, and Medicare contracts applicable to this audit;
- reviewed information provided by TrailBlazer to identify the amount of pension costs claimed for Medicare reimbursement for FYs 2005 through 2011;
- used information that BCBS South Carolina's actuarial consulting firms provided, including information on the pension plan's assets, liabilities, normal costs, contributions, benefit payments, investment earnings, and administrative expenses;
- examined BCBS South Carolina's and TrailBlazer's accounting records, pension plan documents, annual actuarial valuation reports, and Department of Labor/Internal Revenue Service Forms 5500;
- determined the extent to which BCBS South Carolina funded CAS-based pension costs with contributions to the pension trust fund and accumulated prepayment credits;
- engaged the CMS Office of the Actuary to calculate the allocable pension costs based on the CAS (the calculations were based on separately computed CAS-based pension costs for the Medicare segment);
- reviewed the CMS actuaries' methodology and calculations; and
- provided the results of the review to Palmetto officials on May 11, 2017.

We performed this review in conjunction with the following audits and used the information obtained during these audits for this review:

- *TrailBlazer Health Enterprises, LLC, Understated Its Medicare Segment Pension Assets and Understated Medicare's Share of the Medicare Segment Excess Pension Assets (A-07-17-00507) and*
- *TrailBlazer Health Enterprises, LLC Claimed Some Unallowable Medicare Administrative Contract Pension Costs (A-07-17-00510).*

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objectives.

## **APPENDIX B: FEDERAL REQUIREMENTS RELATED TO REIMBURSEMENT OF PENSION COSTS**

### **FEDERAL REGULATIONS**

Federal regulations (FAR 31.205-6(j)) address allowability of pension costs and require that contractors fund the pension costs assigned to contract periods by making contributions to the pension plan.

Federal regulations (CAS 412) (as amended) address the determination and measurement of pension cost components. This regulation also addresses the assignment of pension costs to appropriate accounting periods.

Federal regulations (CAS 413) (as amended) address the valuation of pension assets, allocation of pension costs to segments of an organization, adjustment of pension costs for actuarial gains and losses, and assignment of gains and losses to cost accounting periods.

### **MEDICARE CONTRACTS**

The Medicare contracts address the determination and allocation of pension costs. The contracts state: “The calculation of and accounting for pension costs charged to this agreement/contract are governed by the Federal Acquisition Regulation and Cost Accounting Standards 412 and 413.”

**APPENDIX C: ALLOWABLE MEDICARE PENSION COSTS FOR  
TRAILBLAZER HEALTH ENTERPRISES, LLC,  
FOR FISCAL YEARS 2005 THROUGH 2011**

Date	Description	Total Company	Other Segment	Palmetto Segment	TrailBlazer Segment	CDS Segment	Total Medicare
2005	Contributions <u>1/</u>	\$82,491,519	\$82,491,519	\$0	\$0	\$0	
	Discount for interest <u>2/</u>	(\$6,042,045)	(\$6,042,045)	\$0	\$0	\$0	
January 1, 2005	Present value contributions <u>3/</u>	\$76,449,474	\$76,449,474	\$0	\$0	\$0	
	Prepayment credit applied <u>4/</u>	45,149,854	\$32,916,823	\$6,611,978	\$5,621,053	\$0	
	Present value of funding <u>5/</u>	\$121,599,328	\$109,366,297	\$6,611,978	\$5,621,053	\$0	
January 1, 2005	CAS funding target <u>6/</u>	\$45,149,854	\$32,916,823	\$6,611,978	\$5,621,053	\$0	
	Percentage funded <u>7/</u>		100.00%	100.00%	100.00%	0.00%	
	Funded pension cost <u>8/</u>		\$32,916,823	\$6,611,978	\$5,621,053	\$0	
	Allowable interest <u>9/</u>		\$0	\$0	\$0	\$0	
	Allocable pension cost <u>10/</u>		\$32,916,823	\$6,611,978	\$5,621,053	\$0	
	Trailblazer LOB* percentage <u>11/</u>		n/a	n/a	99.98%	n/a	
2005	Total TrailBlazer allowable pension cost <u>12/</u>		n/a	n/a	\$5,619,929	n/a	\$5,619,929

Date	Description	Total Company	Other Segment	Palmetto Segment	TrailBlazer Segment	CDS Segment	Total Medicare
2006	Contributions	\$80,000,000	\$80,000,000	\$0	\$0	\$0	
	Discount for interest	(\$5,818,667)	(\$5,818,667)	\$0	\$0	\$0	
January 1, 2006	Present value contributions	\$74,181,333	\$74,181,333	\$0	\$0	\$0	
	Prepayment credit applied	44,897,533	\$31,827,132	\$7,161,326	\$5,909,075	\$0	
	Present value of funding	\$119,078,866	\$106,008,465	\$7,161,326	\$5,909,075	\$0	
January 1, 2006	CAS funding target	\$44,897,533	\$31,827,132	\$7,161,326	\$5,909,075	\$0	
	Percentage funded		100.00%	100.00%	100.00%	0.00%	
	Funded pension cost		\$31,827,132	\$7,161,326	\$5,909,075	\$0	
	Allowable interest		\$0	\$0	\$0	\$0	
	Allocable pension cost		\$31,827,132	\$7,161,326	\$5,909,075	\$0	
	Trailblazer LOB* percentage		n/a	n/a	99.99%	n/a	
2006	Total TrailBlazer allowable pension cost		n/a	n/a	\$5,908,484	n/a	\$5,908,484

Date	Description	Total Company	Other Segment	Palmetto Segment	TrailBlazer Segment	CDS Segment	Total Medicare
2007	Contributions	\$30,000,000	\$30,000,000	\$0	\$0	\$0	
	Discount for interest	(\$2,222,222)	(\$2,222,222)	\$0	\$0	\$0	
January 1, 2007	Present value contributions	\$27,777,778	\$27,777,778	\$0	\$0		
	Prepayment credit applied	44,260,248	\$32,402,967	\$6,557,001	\$5,300,280	\$0	
	Present value of funding	\$72,038,026	\$60,180,745	\$6,557,001	\$5,300,280	\$0	
January 1, 2007	CAS funding target	44,260,248	\$32,402,967	\$6,557,001	\$5,300,280	\$0	
	Percentage funded		100.00%	100.00%	100.00%	0.00%	
	Funded pension cost		\$32,402,967	\$6,557,001	\$5,300,280	\$0	
	Allowable interest		\$0	\$0	\$0	\$0	
	Allocable pension cost		\$32,402,967	\$6,557,001	\$5,300,280	\$0	
	Trailblazer LOB* percentage		n/a	n/a	94.89%	n/a	
2007	Total TrailBlazer allowable pension cost		n/a	n/a	\$5,029,436	n/a	\$5,029,436

Date	Description	Total Company	Other Segment	Palmetto Segment	TrailBlazer Segment	CDS Segment	Total Medicare
2008	Contributions	\$55,000,000	\$55,000,000	\$0	\$0	\$0	
	Discount for interest	(\$4,074,074)	(\$4,074,074)	\$0	\$0	\$0	
January 1, 2008	Present value contributions	\$50,925,926	\$50,925,926	\$0	\$0	\$0	
	Prepayment credit applied	44,832,164	34,654,231	\$4,985,138	\$4,196,561	\$996,234	
	Present value of funding	\$95,758,090	\$85,580,157	\$4,985,138	\$4,196,561	\$996,234	
January 1, 2008	CAS funding target	44,832,164	34,654,231	\$4,985,138	\$4,196,561	\$996,234	
	Percentage funded		100.00%	100.00%	100.00%	100.00%	
	Funded pension cost		\$34,654,231	\$4,985,138	\$4,196,561	\$996,234	
	Allowable interest		\$0	\$0	\$0	\$0	
	Allocable pension cost		\$34,654,231	\$4,985,138	\$4,196,561	\$996,234	
	Trailblazer LOB* percentage		n/a	n/a	55.07%	n/a	
2008	Total TrailBlazer allowable pension cost		n/a	n/a	\$2,311,046	n/a	\$2,311,046

Date	Description	Total Company	Other Segment	Palmetto Segment	TrailBlazer Segment	CDS Segment	Total Medicare
2009	Contributions	\$50,000,000	\$50,000,000	\$0	\$0	\$0	
	Discount for interest	(\$3,638,889)	(\$3,638,889)	\$0	\$0	\$0	
January 1, 2009	Present value contributions	\$46,361,111	\$46,361,111	\$0	\$0	\$0	
	Prepayment credit applied	\$59,552,309	\$48,168,674	\$5,031,604	\$5,021,589	\$1,330,442	
	Present value of funding	\$105,913,420	\$94,529,785	\$5,031,604	\$5,021,589	\$1,330,442	
January 1, 2009	CAS funding target	\$59,552,309	\$48,168,674	\$5,031,604	\$5,021,589	\$1,330,442	
	Percentage funded		100.00%	100.00%	100.00%	100.00%	
	Funded pension cost		\$48,168,674	\$5,031,604	\$5,021,589	\$1,330,442	
	Allowable interest		\$0	\$0	\$0	\$0	
	Allocable pension cost		\$48,168,674	\$5,031,604	\$5,021,589	\$1,330,442	
	Trailblazer LOB* percentage		n/a	n/a	17.82%	n/a	
2009	Total TrailBlazer allowable pension cost		n/a	n/a	\$894,847	n/a	\$894,847

Date	Description	Total Company	Other Segment	Palmetto Segment	TrailBlazer Segment	CDS Segment	Total Medicare
2010	Contributions	\$80,000,000	\$80,000,000	\$0	\$0	\$0	
	Discount for interest	(\$5,860,741)	(\$5,860,741)	\$0	\$0	\$0	
January 1, 2010	Present value contributions	\$74,139,259	\$74,139,259	\$0	\$0	\$0	
	Prepayment credit applied	63,326,220	50,736,124	\$5,650,955	\$5,244,885	\$1,694,256	
	Present value of funding	\$137,465,479	\$124,875,383	\$5,650,955	\$5,244,885	\$1,694,256	
January 1, 2010	CAS funding target	\$63,326,220	\$50,736,124	\$5,650,955	\$5,244,885	\$1,694,256	
	Percentage funded		100.00%	100.00%	100.00%	100.00%	
	Funded pension cost		\$50,736,124	\$5,650,955	\$5,244,885	\$1,694,256	
	Allowable interest		\$0	\$0	\$0	\$0	
	Allocable pension cost		\$50,736,124	\$5,650,955	\$5,244,885	\$1,694,256	
	Trailblazer LOB* percentage		n/a	n/a	9.21%	n/a	
2010	Total TrailBlazer allowable pension cost		n/a	n/a	\$483,054	n/a	\$483,054

Date	Description	Total Company	Other Segment	Palmetto Segment	TrailBlazer Segment	CDS Segment	Total Medicare
2011	Contributions	\$55,000,000	\$55,000,000	\$0	\$0	\$0	
	Discount for interest	(\$3,997,074)	(\$3,997,074)	\$0	\$0	\$0	
January 1, 2011	Present value contributions	\$51,002,926	\$51,002,926	\$0	\$0	\$0	
	Prepayment credit applied	62,453,139	50,062,318	\$5,334,690	\$5,195,739	\$1,860,392	
	Present value of funding	\$113,456,065	\$101,065,244	\$5,334,690	\$5,195,739	\$1,860,392	
January 1, 2011	CAS funding target	\$62,453,139	\$50,062,318	\$5,334,690	\$5,195,739	\$1,860,392	
	Percentage funded		100.00%	100.00%	100.00%	100.00%	
	Funded pension cost		\$50,062,318	\$5,334,690	\$5,195,739	\$1,860,392	
	Allowable interest		\$0	\$0	\$0	\$0	
	Allocable pension cost		\$50,062,318	\$5,334,690	\$5,195,739	\$1,860,392	
	Trailblazer LOB* percentage		n/a	n/a	4.21%	n/a	
2011	Total TrailBlazer allowable pension cost	<u>13/</u>	n/a	n/a	\$218,741	n/a	\$218,741

\* LOB=line of business

#### **ENDNOTES**

- 1/ We obtained Total Company contribution amounts and dates of deposit from Internal Revenue Service Form 5500 reports. The contributions included deposits made during the calendar year (CY) and accrued contributions deposited after the end of the CY but within the time allowed for filing tax returns. We determined the contributions allocated to the Medicare segment during the pension segmentation review (A-07-17-00507).
- 2/ We subtracted the interest that was included in the contributions deposited after the beginning of the valuation year to discount the contributions back to their beginning-of-the-year value. For purposes of this Appendix, we computed the interest as the difference between the present value of contributions (at the CAS valuation interest rate) and actual contribution amounts.
- 3/ The present value of contributions is the value of the contributions discounted from the date of deposit back to the first day of the CY. For purposes of this Appendix, we deemed deposits made after the end of the CY to have been made on the final day of the CY, consistent with the method established by the Employee Retirement Income Security Act prior to the implementation of the Pension Protection Act.
- 4/ A prepayment credit represents the accumulated value of premature funding from the previous year(s). A prepayment credit is created when contributions, plus interest, exceed the end-of-year CAS funding target. A prepayment credit is carried forward, with interest, to fund future CAS pension costs.
- 5/ The present value of funding represents the present value of contributions plus prepayment credits. This is the amount of funding that is available to cover the CAS funding target measured at the first day of the CY.
- 6/ The CAS funding target must be funded by contributions made during the current accounting period or prepaid contributions to satisfy the funding requirement of the FAR 31.205-6(j)(2)(i).
- 7/ The percentage of costs funded is a measure of the portion of the CAS funding target that was funded during the CY. Because any funding in excess of the CAS funding target is accounted for as a prepayment in accordance with CAS 412.50(c)(1), the funded ratio may not exceed 100 percent. We computed the percentage funded as the present value of funding divided by the CAS funding target. For purposes of illustration, the percentage of funding has been rounded to four decimal places.

8/ We computed the funded CAS-based pension cost as the CAS funding target multiplied by the percent funded.

9/ We assumed that interest on the funded CAS-based pension cost, less the prepayment credit, accrues in the same proportion as the interest on contributions bears to the present value of contributions. However, we limited the interest in accordance with FAR 31.205-6(j)(2)(iii), which does not permit the allowable interest to exceed the interest that would accrue if the CAS funding target, less the prepayment credit, were funded in four equal installments deposited within 30 days after the end of the quarter.

10/ The allocable CAS pension cost is the amount of pension cost that may be allocated for contract cost purposes.

11/ We calculated the TrailBlazer LOB percentages based on information provided by TrailBlazer.

12/ We computed the allowable Medicare pension cost as the CY allocable pension cost multiplied by the Medicare LOB percentage.

13/ TrailBlazer terminated its Medicare contract on March 21, 2011. Therefore, the FY 2011 allocable pension cost represent the allocable pension costs for January 1, 2011, to March 31, 2011.

## APPENDIX D: AUDITEE COMMENTS



**PALMETTO GBA**<sup>®</sup>  
A CELERIAN GROUP COMPANY

PO BOX 100134 | COLUMBIA, SC 29202-3134 | PALMETTOGBA.COM | ISO 9001  
**KENNETH LEWIS**  
Vice President and CFO

June 28, 2017

Patrick J. Cogley  
Regional Inspector General for Audit Services  
Office of Audit Services, Region VII  
601 East 12<sup>th</sup> Street, Room 0429  
Kansas City, MO 64106

Re: Report Number A-07-17-00508

Dear Mr. Cogley:

We are responding to the U.S. Department of Health and Human Services, Office of Inspector General, draft report dated June 20, 2017 and entitled *TrailBlazer Health Enterprises, LLC, Did Not Claim Some Allowable Medicare Pension Costs*.

The report contains the following recommendation that Palmetto:

- revise TrailBlazer's FACPs for FY 2005 through 2011 to increase its claimed Medicare pension costs by \$4,261,056.

Palmetto concurs with the OIG recommendation and does not have any additional comments or questions.

We appreciate the opportunity to comment on the recommendations. Please let me know if you have questions or need additional information regarding our response.

Sincerely,

/Kenneth Lewis/

Kenneth Lewis  
Vice President and CFO

Cc: Louis McElveen, BCBSSC  
Bruce Hughes, Celerian Group  
Joe Johnson, Palmetto GBA